

NOTE FOR RECORD

Copies to The Governor
The Deputy Governor
Mr Loehnis
Mr Balfour
Mr Holland
Mr P J Bull

HUNGARY

The Deputy Governor telephoned Rieke on Friday to pursue Rieke's remark at WP3 that the Hungarians would be able still to get money from the banks if they were willing to increase their spreads.

Rieke confirmed that this was his view, although he admitted that he was not aware that anyone had actually spoken to the banks. The Hungarians were certainly at present not offering higher spreads, and this might be because Fekete's prestige could be bound up with not having to pay any more.

Rieke said that despite this view the Germans were still taking the Hungarian situation very seriously. Timar had spoken to Schmidt who had agreed to talk to Matthöfer. Gleske had spoken to Schulmann and would also talk to Matthöfer. But there would be problems in keeping within the Budget if they were to offer Hungary anything substantial. It seemed that the Hungarians would require considerably more than had first been suggested, and Matthöfer was unlikely to be able to give a guarantee for this amount.

The Deputy Governor agreed that Fekete should be brought to explore the possibility of paying more to the banks, but he stressed the importance of helping the Hungarians. One could justify granting them special concessions since their problems were entirely due to contagion from other East European countries and there was no presumption that one wanted them to alter their policies. Furthermore, Hungary was almost in the Fund, so that assistance would only need to be temporary.

Rieke promised to talk to Gleske about whether there had been any direct contacts about Hungary with the banks.

Rieke telephoned back later after his conversation with Gleske. Gleske had heard from Schleiminger confirming that the Hungarians would probably need about \$600 mn, of which \$200 mn would be sought from the BIS and \$400 mn from the central banks. Gleske had the impression that German banks were still advancing money to Hungary although they were scaling down their commitments. He had no idea how much an offer of higher rates would increase their willingness to lend.

The Deputy Governor replied that this was most helpful. He reported that the Bank was in touch with the British Government and felt that it was sympathetic in principle. The most useful development would be a declaration from the US that Hungary was regarded as different from other countries in Eastern Europe.

Deputy Governor's Secretariat
15 March 1982

C A Enoch (4498)

CAE